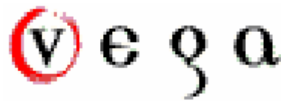


Entrepreneurship: New Venture Creation

Greg Fisher



Go! Coffee Case Study

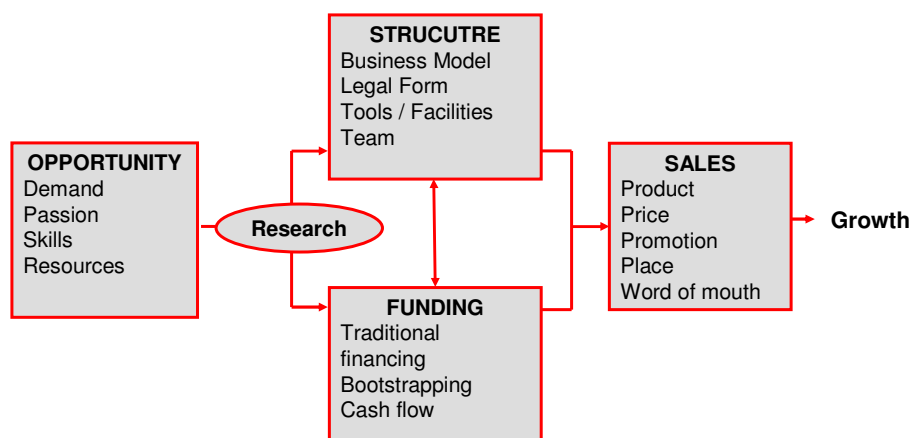
Questions

- Is this a good business opportunity? Evaluate the strengths and weaknesses of this opportunity?
- What are Middleton's options in terms of funding this business?
- Is Middleton the right person to seize this opportunity? What kind of partners should he be looking for?
- What course of action should Middleton take?

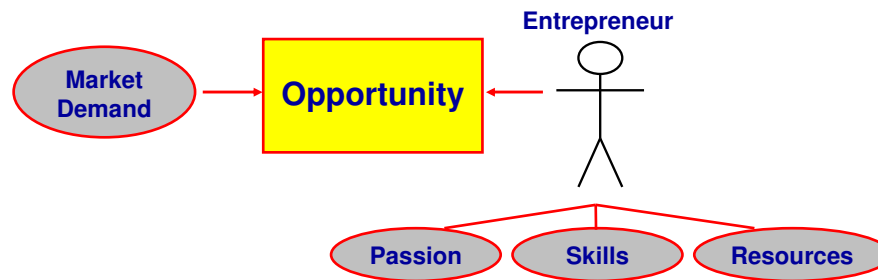
Am I doing the right thing?

Am I doing things right?

New Venture Creation Model



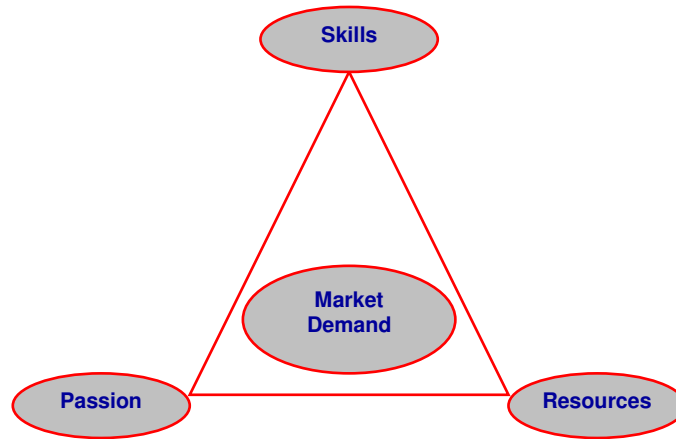
The Key Elements in Creating an Entrepreneurial Opportunity



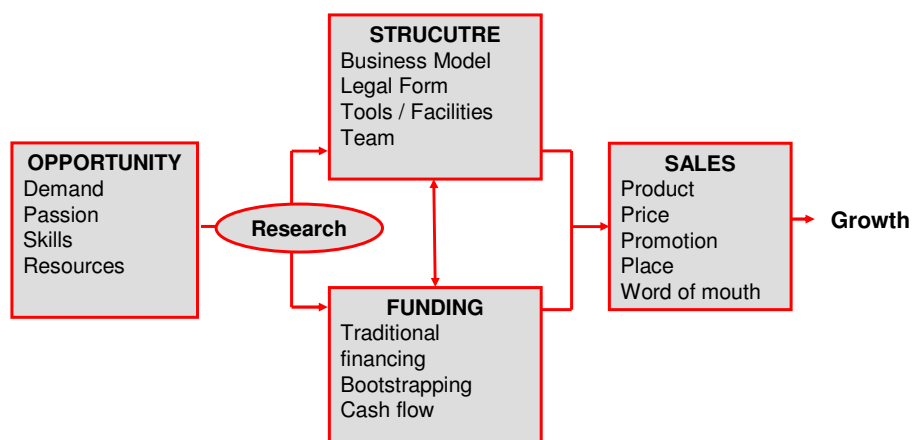
Key questions to sourcing the right opportunity:

- What do people need? Who will buy it? Why do they want it? How can I reach them?
- What am I deeply passionate about?
- How can I leverage my unique skills?
- Where can I get the resources to make it happen?

Linking Market Demand with passion, skills and resources to create an entrepreneurial opportunity



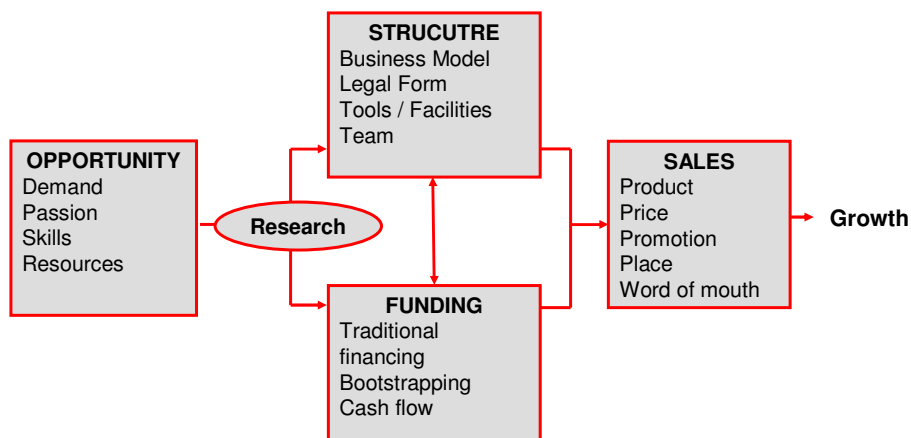
New Venture Creation Model



Researching an Idea

	What needs to be researched?	How can one gather the information?
Customers	<ul style="list-style-type: none"> Market size. Growth The needs of customers The buying decision of customers 	<ul style="list-style-type: none"> Trade journals, market reports and industry associations. Interviewing experts in the industry. Interviewing, observing or surveying potential customers.
Competitors	<ul style="list-style-type: none"> Number of competitors Product or service offerings of competitors Where the competitors are situated. The strengths and weaknesses of competitors 	<ul style="list-style-type: none"> Become a customer of the competition. Visit competitor websites, stores and read their promotional material. Interview competitors customers
Collaborators	<ul style="list-style-type: none"> Suppliers Funders Partners 	<ul style="list-style-type: none"> Visit suppliers Discuss funding options with other entrepreneurs Discuss funding options with the banks Obtain and read the national venture capital association handbook Search the web
The Company Model	<ul style="list-style-type: none"> Revenue Cost drivers Investment Critical success factors 	<ul style="list-style-type: none"> Consider different revenue models: Evaluate the costs and the costs drivers. Distinguish between fixed, variable and semi variable costs. Consider the source of costs: Do cash flow projections Speak to industry experts

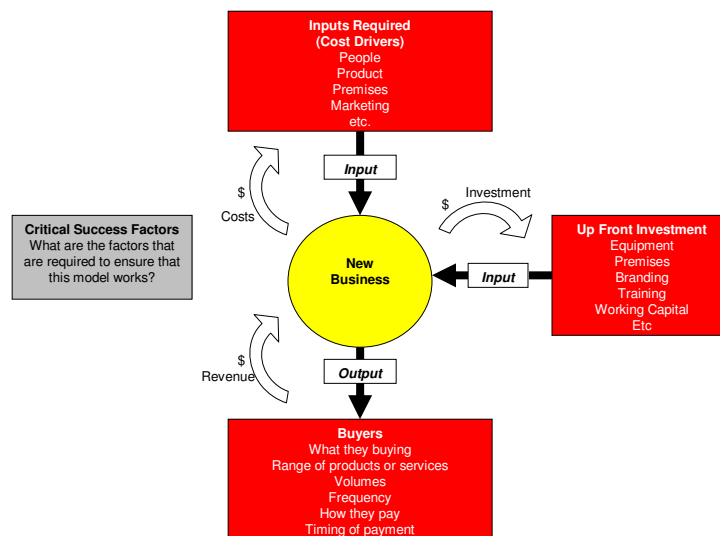
New Venture Creation Model



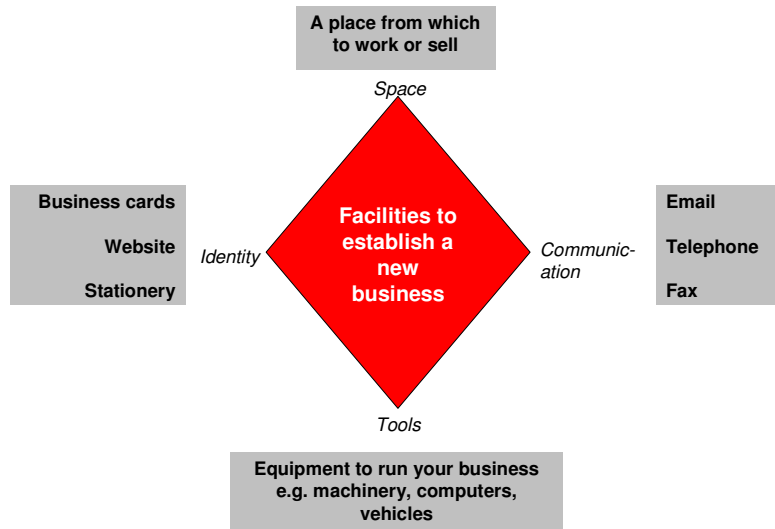
Key questions for building a business model

- What are the sources of revenue for the business?
 - Single or multiple revenue streams?
 - Payment terms – upfront, over a period of time or post delivery?
- What are the cost drivers for the new business?
 - Major costs incurred to generate revenue?
 - Nature of costs – fixed, variable or semi-variable?
 - Payment terms – upfront, over a period of time or post delivery?
- What size capital investment is required to launch and sustain the business?
 - To sustain a positive cash balance?
 - To make profit?
- What are the critical success factors for this business?
 - Identify the issues that will determine the success or failure of the business?

Business Model Diagram



Facilities for a new business



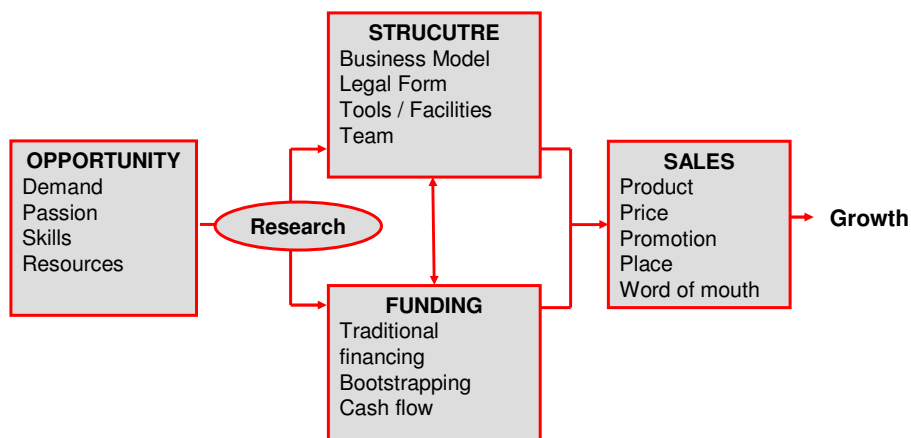
The contents of a business plan

- **The People.** The men and woman starting and running the venture, as well as outside parties providing key services or important resources for it such as suppliers, lawyers and advisors.
- **The Opportunity.** The need in the market for the proposed product or service. The size and growth of the potential market and the attractiveness of the industry in which the business will operate.
- **The Business Model.** A summation of the core business decisions and trade offs employed by a company to earn a profit. The decisions and trade offs include revenue sources, key expenses, investment size and critical success factors
- **The Strategy.** The methods and means of creating sustainable competitive advantage for the new business.
- **The Context.** The big picture – the regulatory environment, interest rates, demographic trends, inflation and the like – factors that inevitably change but cannot be controlled by the entrepreneur.
- **Risk and Reward.** An assessment of everything that can go wrong and right, and a discussion of how the entrepreneurial team can respond.

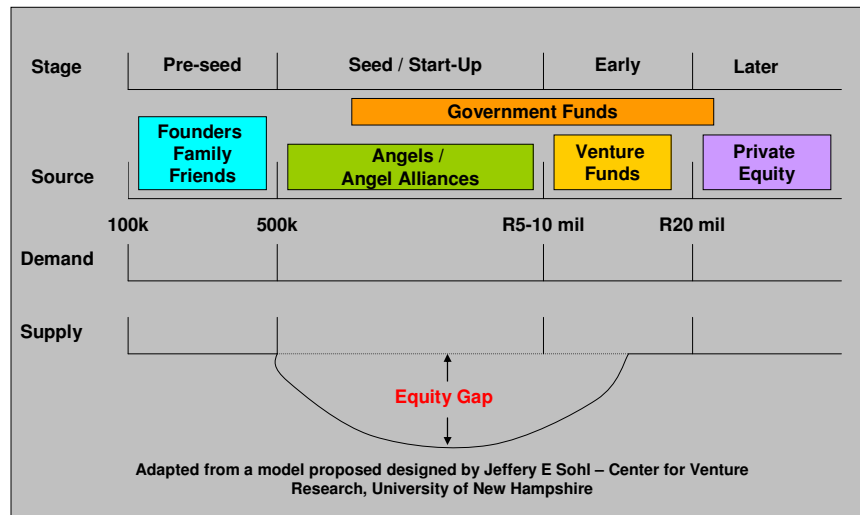
Writing a business plan

Do	Don't
<ul style="list-style-type: none"> • Get the entire management team involved in devising and discussing what should be in the business plan • Get one person to write up the final business plan to ensure consistency and coherence • Write up a good executive summary of no more than 2 pages • Be realistic about the risks of the business 	<ul style="list-style-type: none"> • Don't exceed 25 pages • Don't have excessive, detailed financial projections • Don't be overly optimistic – you will lose credibility • Don't use technical jargon or unknown acronyms

New Venture Creation Model



New venture financing and the equity gap



Sources of finance for a business

Equity Funding Sources		Debt Funding Sources	
<ul style="list-style-type: none"> Personal savings Family and friends Informal individual investors Venture capitalists Government agencies Partnerships / strategic alliances with corporations Private equity investors (for established businesses) Listing on stock exchange <ul style="list-style-type: none"> Alt-X Main Board 		<ul style="list-style-type: none"> Loans from family and friends Loans from government agencies or NGO's supporting entrepreneurs Bank loans 	
Advantages	Disadvantages	Advantages	Disadvantages
<ul style="list-style-type: none"> Often comes with useful management input and advice. Equity investors can give access to a network of useful contacts No immediate strain on cash flow in terms of repayments of the capital 	<ul style="list-style-type: none"> Lose a portion of the ownership of the business. Equity owners can be controlling which can cause friction with the founders Difficult to value an entrepreneurial business when allocating shareholdings 	<ul style="list-style-type: none"> Founder maintains full ownership of the business. Founder can manage and run the business as he/she sees fit 	<ul style="list-style-type: none"> Loan must be paid back which can create strain on cash flow for the new business. Bank is unlikely to assist in opening doors, giving advice or introducing founders to useful contacts.

Early stage funding available in SA

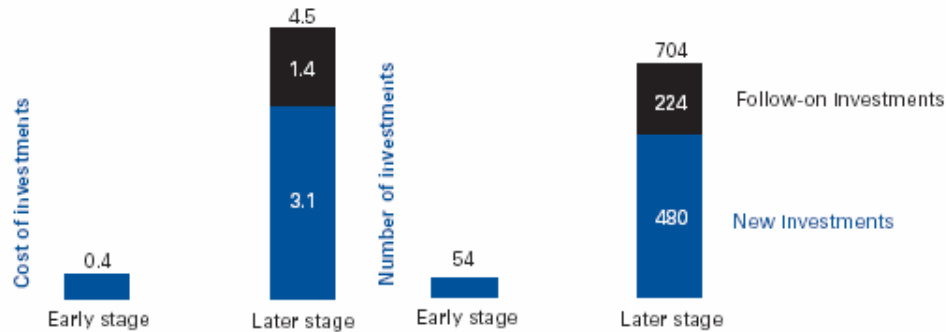
Name	Min	Max	Excluding
Blue Catalyst Matching Fund	R2m	R12m	Biotech and life sciences
Business Partners (var. funds)	R150 000	R15m	Agriculture and on-lending
Enablis Khula Loan Fund	R100 000	R2.5m	None
HBD Venture Capital	R10m	R25m	Agriculture, gaming, alcohol, tobacco, real estate, pornography and armaments
Industrial Development Corp	-	-	Gaming and liquor
Khula Equity Fund	R150 000	R3m	Primary agriculture, on-lending and property not part of business
Lireas Holdings	R100 000	R5m	Insurance
National Empowerment Fund	R250 000	R50m	Mineral explorations, property development and pornography
Progressive Investment Trust	R1m	R30m	IT and agriculture
Treacle Venture Partners	0	R90m	Primary agriculture, real estate and resources
Triumph Venture Capital	R3m	R15m	None
Umsobomvu Youth Fund	R100 000	R8m	Tobacco, gaming and property

Sources of finance for a business

Equity Funding Sources	Debt Funding Sources
Examples in SA	Example in SA
Venture Capital <ul style="list-style-type: none"> Business Partners (www.businesspartners.co.za) HBD Venture Capital (www.hbd.com) Government Agencies <ul style="list-style-type: none"> Blue Catalyst (www.bluecatalyst.co.za) IDC (www.idc.co.za) Umsobomvu Youth Fund (www.uyf.org.za) 	<p>The following banks have services and funds for small businesses:</p> <ul style="list-style-type: none"> Absa Bank (www.absa.co.za) Standard Bank (www.standardbank.co.za) FNB (www.fnb.co.za) Nedbank (www.nedbank.co.za) Sasfin Bank (www.sasfin.co.za) <p>Their websites also have excellent downloadable resources on starting a business.</p>

Venture Capital in SA in 2005

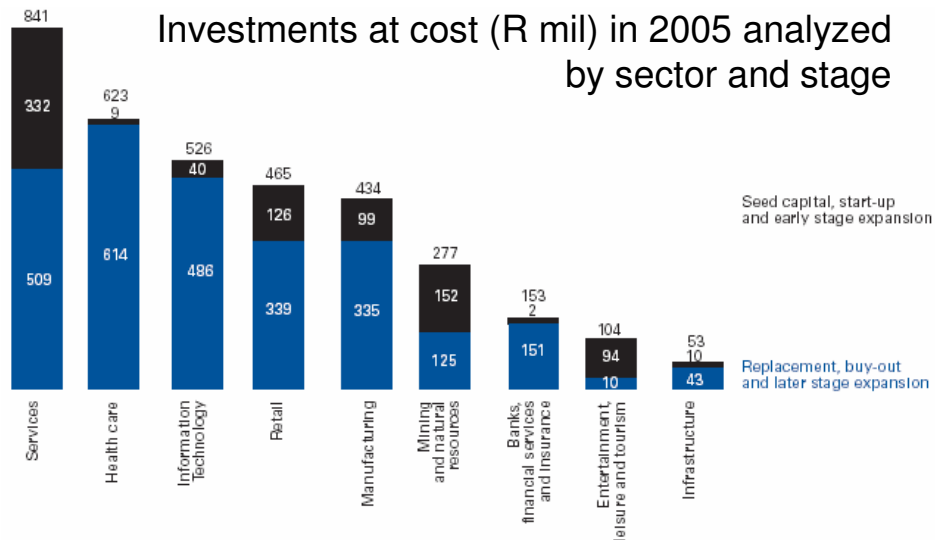
Cost (R bn) of investments & no. of investments
in 2005 analyzed by fund stage



Source: SAVCA KPMG Private Equity Survey 2005

Venture Capital in SA in 2005

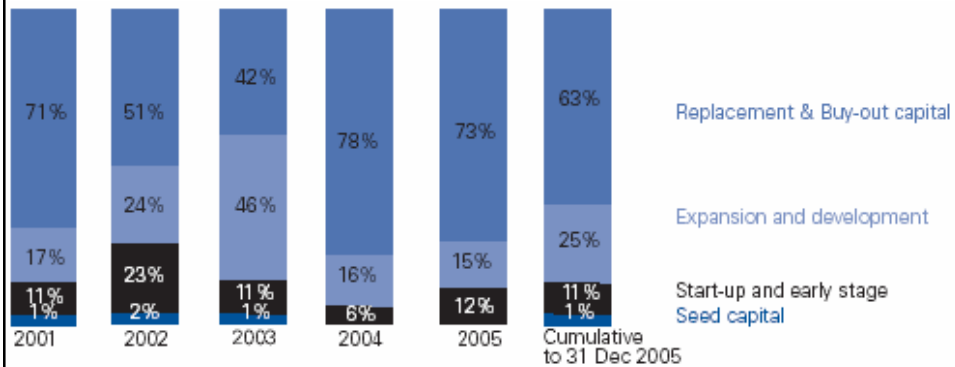
Investments at cost (R mil) in 2005 analyzed
by sector and stage



Source: SAVCA KPMG Private Equity Survey 2005

Venture Capital in SA in 2005

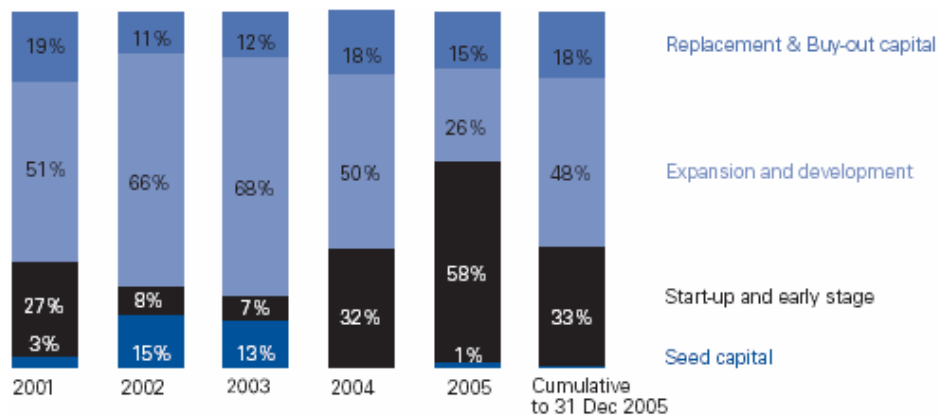
Investments at cost (R mil) up to 2005 analyzed by stage



Source: SAVCA KPMG Private Equity Survey 2005

Venture Capital in SA in 2005

Number of Investments up to 2005 analyzed by stage



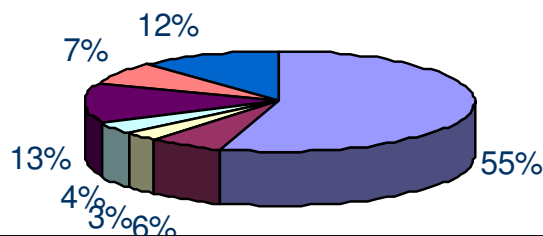
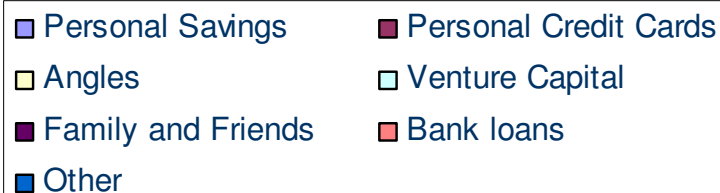
Source: SAVCA KPMG Private Equity Survey 2005

Likely Funding Sources

Primary targets for raising money for a start up business in SA should be one of the following (in order of likelihood of raising any finance):

1. An **individual investor** who already knows you or whom you meet through a contact – your contacts network is your best chance of raising money. You need to be selling your ideas to friends, family and anyone else who may be willing to listen.
2. An **established business** that could benefit from a partnership with your business
3. A **government small business development fund**

Promising Startups - Primary Sources of Initial Funding - Inc 500 Businesses USA 1999



Source: Bhidé, A. The origin and Evolution of New Business. 2000. Oxford University Press.

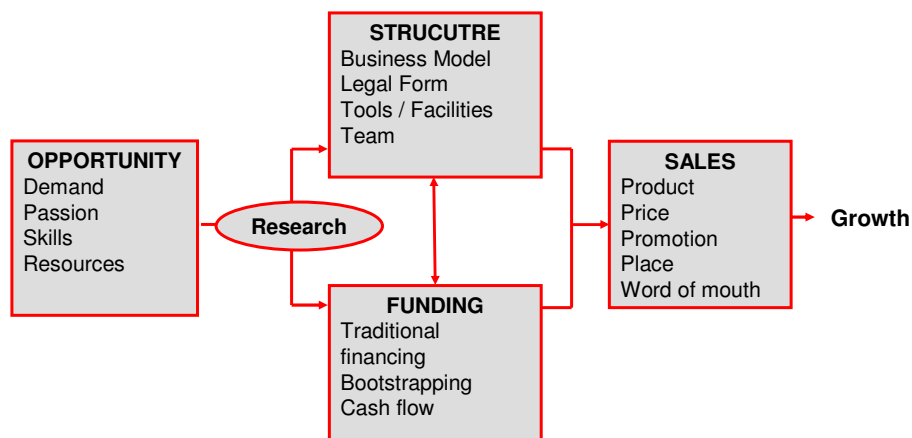
The Art of Bootstrapping

1. Focus on cash flow, not profitability
2. Forecast from the bottom up Forecast from the bottom up
3. Ship, then test
4. Forget the "proven" team
5. Start as a service business
6. Focus on function, not form
7. Pick your battles
8. Understaff
9. Go direct
10. Position against the leader
11. Take the "red pill." i.e. be REAL about your cash situation



Source: Kawasaki, G. The Art of the Start. 2004. Portfolio.

New Venture Creation Model



Marketing and Selling

Marketing – Back to Basics

Marketing mix component	Description of the component	Key questions to be answered by the entrepreneur	Considerations
Product	Good marketing begins with a good product or service.	Does it meet a specific need? What is that need? Must we customize our product or service? Do we deliver the appropriate quality for the customer?	Product variety Quality Design Features Packaging Services Warranties Returns
Price	You need to find a balance between attracting customers and making profits.	What does it cost us to produce the good or service? What are the competition charging for similar goods or services? Why are we charging more or less than the competition? How would revenue and profits be affected if we increased or decreased the price?	List price Discounts Allowances Payment period Credit terms

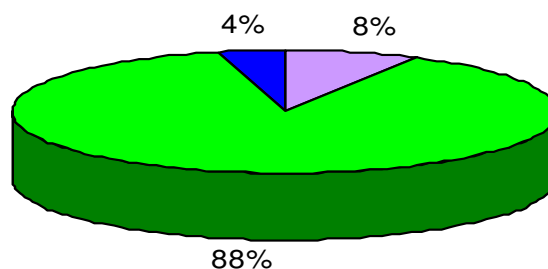
Marketing – Back to Basics

Marketing mix component	Description of the component	Key questions to be answered by the entrepreneur	Considerations
Place	This is about getting the product or service to the customer. Customers will only buy products or services that they have access to, thus it is critical to have distribution channels that reach the customer.	Are we going to sell locally, regionally, nationally or globally? How will we reach the customer? Do we need more than one channel for reaching the customer? Should we create our own distribution channel or partner with an established distributor?	Channels Coverage Transport
Promotion	Promotion is about communicating the merits of the product or service to target customers and persuading them to buy.	How will we make customers aware of the benefits of buying our product or service?	Advertising Sales force Public relations Direct marketing

Importance of Selling

Sources of early revenue

■ Through intermediaries
 ■ Through direct sales
 ■ Both

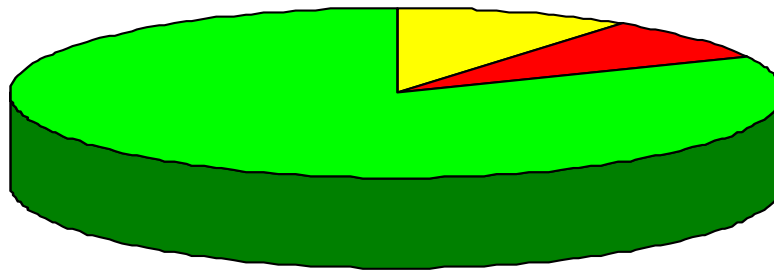


Source: Bhidé, A. The origin and Evolution of New Business. 2000. Oxford University Press.

Importance of Selling

Founders involvement in selling

■ Heavily involved ■ Somewhat involved ■ Main sales person



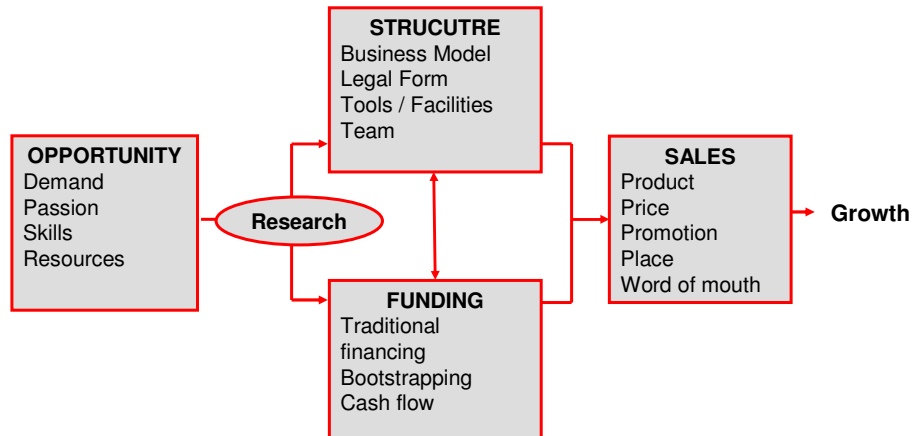
Source: Bhidé, A. The origin and Evolution of New Business. 2000. Oxford University Press.

Creating buzz for your business

- **talk to your friends**, ask them to recommend the product to others, and hope that the word-of-mouth grow quickly
- **talk at every possible opportunity you can find**: be it industry conferences, meetings, seminars, and charity meetings
- **go after the so-called "opinion leaders"** - individuals that serve as sources of information, and are often considered by people as credible
- **pitch your story to the media**. A writer may print your story, or a television anchor may recommend your web site to their viewers

Source: www.powerhomebiz.com

New Venture Creation Model



Growth – the growth matrix

New Product	Creating and selling a new product or service to the same customers. <ul style="list-style-type: none"> Identify additional needs at current clients and develop products or services to meet those needs Innovate new products or services and use current client database to sell the product or service <i>e.g. Pick n Pay offering its current clients banking services (go Banking)</i>	Creating and selling new products to new customers. <ul style="list-style-type: none"> Innovate - create completely new products that are relevant for markets in which you don't currently operate. <i>e.g. Apple computers creating the Apple ipod MP3 player and marketing and selling it to teenagers across the globe</i>
	Selling more of your current product or services to current customers. <ul style="list-style-type: none"> Identify further needs for your product or service at current clients Do more marketing to current clients <i>e.g. Outsurance doing evaluations on all its clients to assess whether they are adequately insured and selling additional insurance to those that are under insured</i>	Selling the current product or services to new customers (local or global) <ul style="list-style-type: none"> Move into new country or region Advertise to a sector of society that don't currently buy your product or service <i>e.g. Nandos opening stores in the UK, Australia and the Middle East. Selling the same type of meals that they sell in SA in new markets.</i>
	Same Market	New Market

The Art of The Start



Guy Kawasaki

